



WEEKLY ECONOMIC DIGEST

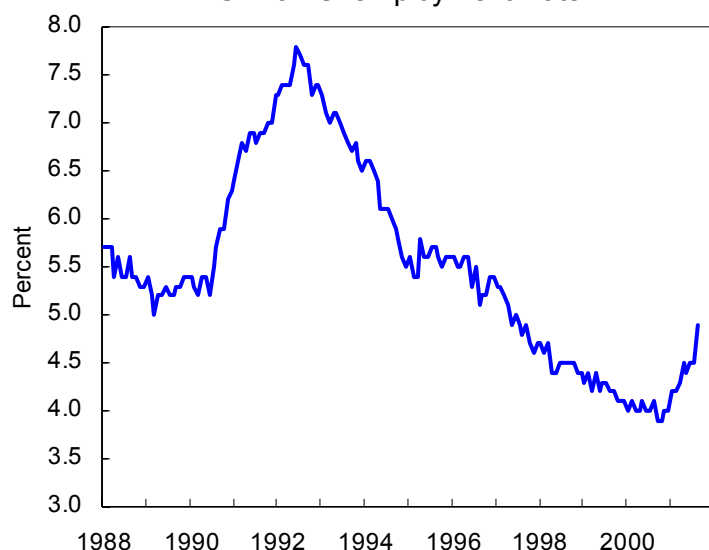


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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September 11, 2001

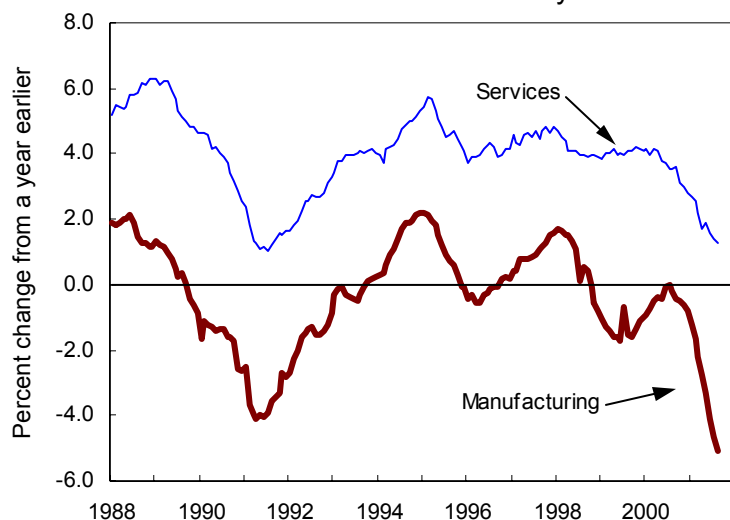
Weak Employment Sharpens Risks for Household Spending

Civilian Unemployment Rate



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Growth in Establishment Payrolls



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **Unemployment rose sharply in August.** Following months of stability, the civilian unemployment rate shot up 0.4 percentage points last month to 4.9 percent, its highest level in nearly four years. The total number of unemployed swelled by 562,000 and those who have been unemployed for at least 15 weeks rose by 230,000 people.
- **Payrolls fell.** Nonfarm payrolls sank by 113,000 jobs in August, a substantially larger drop than most analysts had been expecting. Manufacturing payrolls shrank more rapidly and jobs in services grew more slowly than they have in recent months. Workers in the industrial machinery and electrical equipment sectors continue to be the hardest hit by the slowdown. Over the past twelve months, the unemployment rate among factory workers has risen 2.2 percentage points, reaching 5.7 percent last month.
- **Has manufacturing hit bottom?** Results from the August survey by the National Association of Purchasing Managers (NAPM) held out some hope that the recession in manufacturing may soon be over: the contraction in manufacturing appears to be slowing. We won't know if that is the case for a while. Even if it is, a turnaround in factory employment is likely to lag behind the recovery in factory output.
- **Has the economic weakness spread beyond manufacturing?** The August NAPM survey for nonmanufacturing suggested that business activity outside of manufacturing is contracting sharply. Although we do not yet have a complete picture on the current performance of the service sector, that NAPM survey response parallels the regional indications recently reported by the Federal Reserve that the weakness in manufacturing may be spreading to the service sector.
- **Households are cautious.** The deterioration in labor markets has left households more cautious. For example, data for July suggest that consumers may be saving their tax rebates. Surveys of consumer sentiment, moreover, indicate that lower-income households are increasingly concerned by the weaker economy. A sharp slowing in consumption spending from current rates could imperil the economy's prospects for a smooth landing.

Economy At A Glance	Aug	Jul	Jun	May	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000	1999
Economic Activity										
Real GDP (% growth)					.2	1.3	1.9	1.3	4.1	4.1
Industrial Production (% growth) *		-1.2	-10.3	-3.5	-4.2	-6.8	-0.9	3.5	5.6	4.2
Capacity Utilization (Level, %)*		77.0	77.2	78.0	77.9	79.2	81.3	82.4	82.1	81.2
Civilian Unemployment Rate (Level, %)	4.9	4.5	4.5	4.4	4.5	4.2	4.0	4.0	4.0	4.2
Housing Starts (Thousands)		1672	1627	1610	1621	1627	1539	1505	1575	1647
Real Disposable Personal Income (% growth)		23.8	1.7	0.2	2.4	2.7	4.2	2.7	3.5	2.5
Retail Sales (% growth)*		.3	-.4	2.4	5.2	5.2	0.3	4.7	7.6	8.2
Personal Saving Rate (Level, %)		2.5	1.0	1.1	1.1	1.1	1.0	0.8	1.0	2.4
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)		-3.5	2.7	4.9	3.1	4.2	2.9	3.5	3.4	2.2
Core CPI-U Inflation (% growth)		2.4	3.9	1.3	2.6	3.2	2.4	2.5	2.4	2.1
Compensation per Hour (% growth)					4.0	4.6	3.5	3.8	4.4	3.5
Output per Hour (% growth)					2.1	0.0	2.4	1.4	3.0	2.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	3.4	3.5	3.5	3.6	3.7	4.8	6.0	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.0	5.2	5.3	5.4	5.3	5.1	5.6	5.9	6.0	5.7
Federal Funds Rate (Level, %)	3.7	3.8	4.0	4.2	4.3	5.6	6.5	6.5	6.2	5.0
Dow Jones Industrial Avg(Index Level)	10315	10445	10767	11005	10669	10513	10586	10882	10735	10465
<p>Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.</p> <p>Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.</p> <p>* Subject to revision this week.</p>										

Major Economic News Due This Week:

- **Producer Price Index, August** [Release: Friday, September 14, 2001]
- **Retail Sales, Advance for August** [Release: Friday, September 14, 2001]
- **Industrial Production, August** [Release: Friday, September 14, 2001]